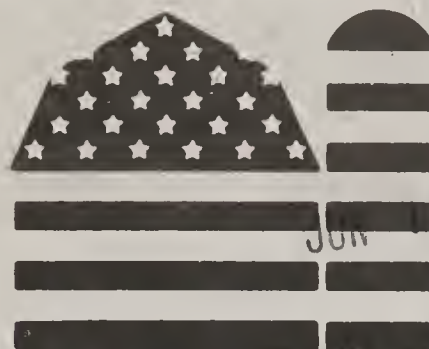


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FARMERS' NEWSLETTER

Wheat



May 79/W-8

Wheat Prices Rise 50 Percent in 2 Years

Although nearly 2 years have gone by, it isn't easy to forget the rock bottom wheat prices that faced us as the 1977/78 crop year began. Farm prices were below the \$2.25 loan level--under \$2 at many locations--and didn't even cover out-of-pocket production costs. Since then, prices have strengthened until \$3 per bushel is common.

Three major developments combined to lift prices:

1. Implementation of a 20 percent acreage set-aside program and weather conditions reduced 1978 production 12 percent.
2. An extended loan (3 year farmer-held reserve) program helped restrict readily marketable supplies.
3. Strong foreign demand for U. S. wheat pushed exports to well above 1 billion bushels.

1979 Wheat Crop Prices?

At this early date, forecasting is tricky and uncertain but here are some factors that could be good for wheat prices:

- June 1 carryover stocks will be down about 19 percent. It will be the first decline below 1 billion bushels in 2 years.
- Nearly half of June carryover stocks have been placed in the farmer-held

reserve and cannot be sold on the market for less than \$3.29 per bushel farm price. Another 5 percent of stocks are owned by CCC.

● Outstanding wheat loans on the 1978 crop wheat (150 million bushels as of April 18) would generally become due as the 1979 harvest develops. However, producers have been given the opportunity to extend those loans for another 6 months. This should ease downward pressure on prices.

● The U.S. is using and exporting more wheat than harvested last year. Foreign demand continues strong despite a recovery in Southern Hemisphere crops.

● There is considerable doubt that foreign wheat production will be as large as the record harvest of 1978/79. Spring wheat plantings are lagging in a number of Northern Hemisphere countries.

● Finally, overall inflation lifts wheat prices.

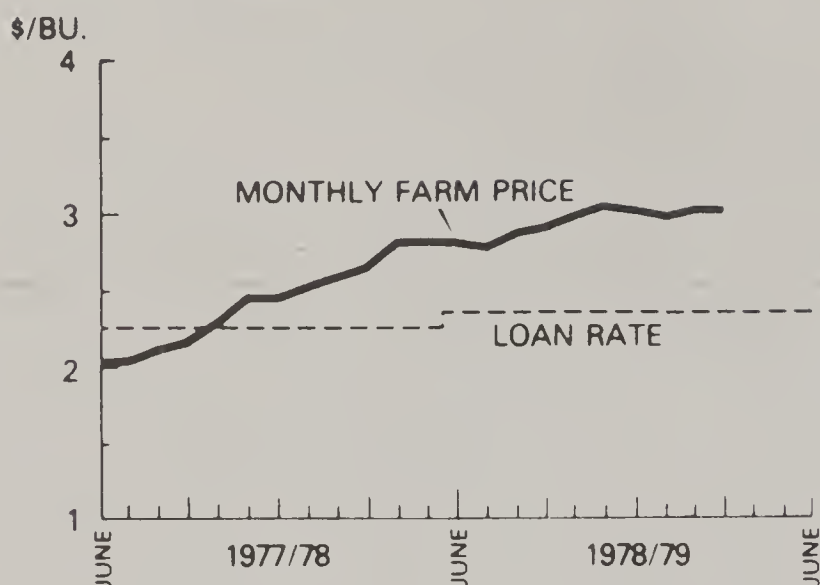
Some factors that will tend to depress prices:

- Farmers may produce 6 to 10 percent

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WHEAT: FARM PRICE AND LOAN RATE



more wheat this year. Production is likely to be up for all major wheat classes. Soft Red Winter wheat will lead the way with the sharpest increase.

- So far, the U.S. winter wheat crop appears generally good and in better condition than last year. Spring wheat planting may be delayed because of a rather late spring but soil moisture conditions are very good.

- World carryover wheat stocks are at record levels.

Reviewing the 1978/79 Wheat Year

As the 1978/79 crop year ends, it may be instructive to review the season:

- Despite reduced acreage harvested last summer, U.S. wheat supplies this season totaled only slightly below the record set the year before. Last June's carryin totaled 1,177 million bushels, the biggest since 1963. The '78 crop brought total supply to just under 3 billion bushels.

- Farmers put much of this big supply into USDA price support programs. By April 1, more than 400 million bushels were in the the farmer-held reserve, 160 million were under

regular loan and 50 million bushels were owned by CCC.

- Although foreign growers produced a record 13.7 billion bushels of wheat, export demand for U.S. wheat has been brisk. Despite considerably higher U.S. prices this season, buyers imported more than 1 million bushels in the first 10 months of the marketing year. And the total will be the second highest in history.

- Here at home, mill use is up; total wheat food use is near a record high.

- Looking ahead to June 1, the record marketings will eat into the large supply and carryover will drop to 950 million bushels from 1,124 million bushels a year ago. This sets the stage for the 1979/80 crop year.

Farm Wheat Prices Hold Firm

Average monthly wheat prices received by farmers have shown almost no change for 6 consecutive months, running about \$3 per bushel since last October.

Not since the early 70's have prices been so steady. While there are a

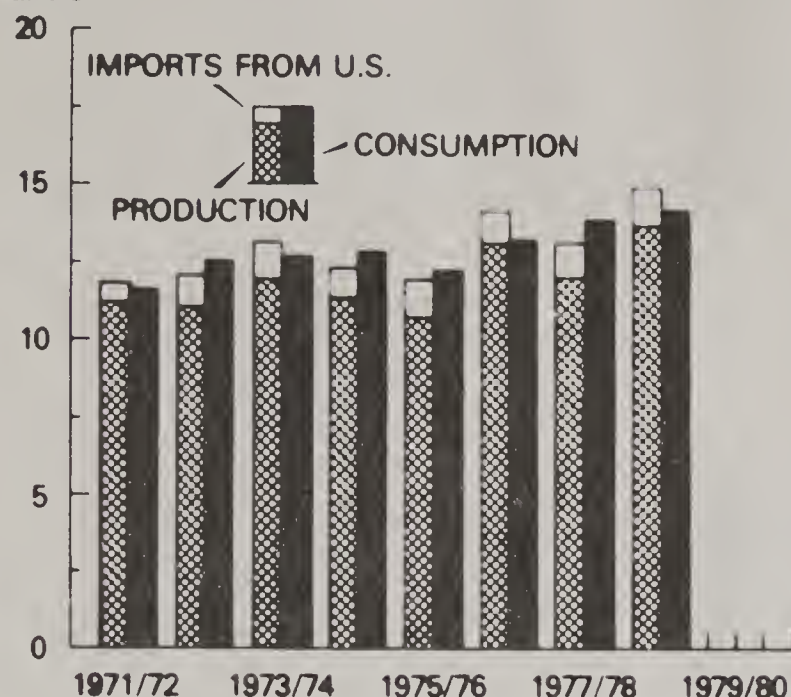
U.S. WHEAT SUPPLIES AND USE

Item	1976/77 Recorded	1977/78 Estimated	1978/79 ¹
<i>Million bushels</i>			
Supply			
Beginning stocks . . .	665	1,112	1,177
Production	2,142	2,036	1,799
Imports	3	2	2
Total supply	2,810	3,150	2,978
Utilization			
Food	588	586	590
Seed	92	80	80
Feed	68	183	175
Exports	950	1,124	1,175
Total disappearance . .	1,698	1,973	2,027
Ending stocks	1,112	1,177	951

¹ Supply estimated, Utilization forecast.

WHEAT IN FOREIGN COUNTRIES

BIL. BU.



variety of wheat price levels throughout the United States, this pattern of narrow price fluctuations seems to have held true for all wheat classes except Soft Red Winter (SRW) wheat.

Producers of all classes seemed to have set a market price goal and considered selling only when that goal was reached.

In essence, they dribbled wheat into the market as demand pressured prices. Holding back has always been a market strategy but it may have been more prevalent this season and in turn aided higher and firmer price levels.

The Important World Wheat Picture

As you know, about three-fifths of the U.S. crop is sold to foreign buyers. Consequently, changes in wheat supplies and demand abroad often cause major swings in U.S. wheat prices.

The chart shows important overseas pricemaking developments in recent years. Note that wheat use increased substantially after 1971/72.

Purchases of U.S. wheat suddenly rose

from 600 million bushels to about 1.1 billion bushels in succeeding years. This heavy buying depleted our surplus and farm prices climbed from around \$1.30 a bushel to around \$4.

Wheat crops in many foreign areas were short in 1974/75--and even shorter the following year. That was when the disastrous USSR crop and poor harvests in several other countries coincided.

While the Russians were looking at barren fields that year, U.S. wheat producers reaped a bumper crop of 2.1 billion bushels, nearly a fifth more than the record crop of the previous year.

We also brought in large crops in 1976 and 1977, and foreign buyers continued to import about 1.1 billion bushels per year.

World production jumped to a record in 1976/77, slipped a little in 1977/78 and reached another record last season. The combination of these three large crops in the U.S. and overseas with only small expansion in world wheat consumption weakened U.S. wheat prices during 1975, 1976, and 1977.

More Soft Red Winter Wheat

Soft Red Winter (SRW) wheat sold at premium prices through most of the current season. This spring's farm prices are more than \$1 per bushel above a year ago. This unusual situation is apt to ease during the coming marketing year.

The 1978 SRW wheat crop brought top prices because it totaled only about 202 million bushels, compared with 350 million bushels the year before. This caused total SRW supplies to drop by 150 million bushels, or 35 percent.

Principal reason for the short crop was a sharp cutback in acreage.

FARMERS' NEWSLETTER



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Farmers restricted their fall 1977 plantings because of low prices, too much rain at planting time, and participation in the set-aside program.

Because of the short supply and higher prices, SRW wheat use during the current marketing year is expected to total only 240 million bushels, about a third below last year.

Last fall's premium SRW prices caused growers to boost plantings 25 percent. However, acreage is still nearly a fifth less than plantings of 2 years earlier.

The 1979 SRW crop is generally in good condition and could be more than a third larger than 1978's 202-million-bushel crop.

June 1 carryover is estimated at about 35 million bushels, half as much as in 1977 and 1978.

So the larger 1979 crop added to the small carryover stocks would make SRW supplies total slightly over 300 million bushels--not much more than the skimpy 273 million bushels that caused the tight 1978/79 supply situation.

This implies that SRW prices in the

coming marketing year may ease off only slightly from their premium levels.

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* Several reports to be released
* over the next couple of months
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* ● Wheat Situation, May 23. *

* ● Agricultural Prices, May 31 *

* ● Crop Production, June 11. *

* ● Grain Stocks, June 21. *

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